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Corp report

1965

MONTEX

MONTEX APPAREL INDUSTRIES LIMITED

annual report

DIRECTORS:

D. A. McIntosh, Q.C.
R. A. Kennedy
A. G. Brown
A. R. Biggs
N. Saykaly
G. F. Brown
W. A. Corbett
D. R. Annett
J. W. Blain, Q.C.
E. C. Kerr
A. Sachs

OFFICERS:

D. A. McIntosh, Q.C., Chairman of the Board
R. A. Kennedy, President and Chief Executive Officer
A. G. Brown, Executive Vice-President
A. R. Biggs, Vice-President, Finance and Treasurer
N. Saykaly, Vice-President
G. F. Brown, Vice-President
W. A. Corbett, Secretary
L. Van Buskirk, Assistant Treasurer

TRANSFER AGENTS:

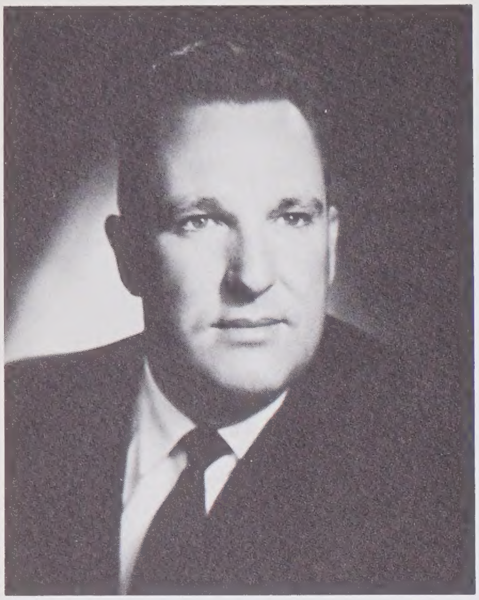
Common: The Royal Trust Company, Toronto and Montreal
Preference: Canada Permanent Trust Company, Toronto and Montreal

STOCK EXCHANGE:

Toronto Stock Exchange

HEAD OFFICE:

Montex Apparel Industries Limited
88 Ronson Drive
Rexdale, Ontario



To our sharehold

For Montex Apparel Industries Limited 1965 was a year of further expansion and reorganization aimed at establishing a firm foundation on which to build future growth and increased earnings. During the year Montex Holdings Limited was amalgamated with The Monarch Knitting Company, Limited and a subsidiary of that company to form Montex Apparel Industries Limited.

Income

Consolidated net income for 1965, after all charges including income taxes was $603,411. Included in this figure are certain items of an extraordinary or non-recurring nature as referred to in the notes to the consolidated financial statements. After deducting preference dividends of $67,169, the consolidated net income for common shareholders was $536,242, equivalent to $1.83 per share. The amount of $603,411 represents the consolidated income of the companies while under Montex management. These results compare with the 1964 consolidated net income for the common shareholders of $172,960, equivalent to 60c per share, determined after deducting pre-acquisition income of subsidiaries acquired during that year amounting to $227,686.

These earnings reported above are derived from sales of $15,403,413, which do not include sales applicable to Tricotex Company Limited, a wholly-owned subsidiary sold in March 1965. They are determined after providing for substantial write-downs in inventory to bring their valuation into line with generally accepted practice in the industry. Also incurred were substantial expenses involved in moving into new plants at Welland and Charny. Certain preliminary expenditures made in 1965 and applicable to the consolidation of facilities in Montreal in 1966 were capitalized, and these will be written off over a three-year period.

Your attention is drawn particularly to the statement of source and application of funds included in this report. This statement brings into focus the very substantial progress made by your Company during 1965. Funds provided for use in the business totalled just under $5 million. Of this, $820,000 was generated as cash flow; $3 million was raised by a bond issue and approximately $1 million was realized in total from the Tricotex sale.

These funds of $5 million in round figures found their way mainly into an increase in working capital of $2.8 million, the retirement of $900,000 in previously outstanding securities and net acquisitions of fixed assets and new subsidiaries to a total of just below $900,000. Constructive use has thus been made of the resources placed at your Company's disposal, and from the base built in the past two years Montex is continuing to move rapidly ahead.

As pointed out in last year's report to the shareholders, your Company decided our future expansion should be in a horizontal manner and accordingly Tricotex, a synthetic fibre fabric manufacturer, was sold for a capital gain of $304,024. After deducting earnings since acquisition of $40,452, this resulted in a net gain of $263,573. After taking into account other adjustments, we effected a net increase to retained earnings of $788,494 for the year, which amounted to an increase in equity of $2.69 per common share.

Working capital increased substantially from $1,038,218 in 1964 to $3,849,706 in 1965. The ratio of current assets to current liabilities improved from 1.3 to 1 in 1964 to 1.7 to 1 in 1965. Total consolidated assets advanced from $11,116,542 in 1964 to $14,192,479 in 1965, an increase of $3,075,937.

Long Term Financing

In order to consolidate our funded debt, to retire certain short term obligations and to improve working capital, your Company sold an issue of $3,000,000 principal amount of 6½% First Mortgage Sinking Fund Bonds Series A along with warrants to purchase 36,000 common shares at $20 per share. During the year all the previously outstanding preference shares of The Monarch Knitting Company, Limited and the previously outstanding funded debt of such company totalling $638,000 principal amount were retired.

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Expansion Continues

Keeping ahead of the boom in the Canadian wearing apparel industry, your Company, in 1965, invested an additional $800,000 in plant and equipment. This figure includes investments in two new manufacturing plants, one at Charny, Quebec, for the ladies division, and the other at Welland, Ontario a men's underwear plant. In addition, improvements were made to the knitting, sewing and finishing capacities of existing facilities. These new manufacturing facilities are now in operation and attaining satisfactory production levels.

Warehousing and shipping facilities are being centralized in warehouses in Toronto and Montreal for efficient handling of your Company's increased production.

Improved Marketing Techniques

Reorganization of product lines has resulted in a standardization of many production techniques and has allowed for the introduction of new and more profitable product groups. The Montex group of companies now markets some four hundred articles of wearing apparel for men, women and children of all ages.

The Montex corporate symbol, introduced last year, now identifies all our branded products, packaging and operating units. This common denominator in all areas of the Company will further strengthen the Montex position with the trade as well as the consumer.

Staff Expansion

Several changes were made to further strengthen management at the corporate level. Two new positions were created, that of Vice-President of Finance and that of Vice-President of Operations for three of the five divisions in Montreal.

The number of Montex employees now stands at approximately 2,000. As our business expands, the need for qualified employees becomes increasingly important.

Emphasis has been placed in our forward planning on future requirements and on recruiting and training. As part of this emphasis Montex has financially supported members of middle management in a program of supplemental education.

Outlook

The year 1965 was a period of change and reorganization in Montex. As noted above, many positive steps were taken to strengthen your Company's operating and financial position. Some of these entailed substantial non-recurring expenditures, but we can report that the benefit of these moves is already becoming apparent.

With our new manufacturing and warehousing facilities, our expanding markets, a strong financial position and a continuing program of development and expansion, we look for a significant improvement in operating results in 1966. In fact, sales for the first quarter of this year are 17% ahead of the corresponding period in 1965. At the same time profit margins have shown improvement.

On behalf of the Board of Directors R. A. Kennedy President.

consolidated balance sheet

ASSETS	1965	Comparative 1964
Current		
Cash	$ 161,071	$ 77,914
Accounts receivable less allowance	2,796,542	2,571,350
Due from subsidiaries	93,456	
Inventories of materials, supplies, work in process and finished goods at the lower of cost and market value	6,450,520	4,655,520
Property, equipment and other assets for realization (Note 4)	117,249	
Prepaid expenses	104,228	32,723
Total current assets	$ 9,723,066	$ 7,337,507
Investments and Advances		
Shares of subsidiary at cost	$ 1,500	$ 53,990
Mortgages receivable		41,501
Deposit		25,000
	$ 1,500	$ 120,491
Fixed — at cost		
Land	$ 86,110	$ 69,614
Buildings	1,843,975	1,644,612
Machinery and equipment	3,862,791	4,088,401
	$ 5,792,876	$ 5,802,627
Less: Accumulated depreciation	3,133,590	3,449,371
	$ 2,659,286	$ 2,353,256
Leasehold and plant improvements less $24,807 amortized	98,516	69,623
	$ 2,757,802	$ 2,422,879
Other Assets and Deferred Charges		
Product development and introduction expenses (Note 5)	$ 86,797	$ 14,238
Deferred engineering and plant opening expenses	51,989	
Corporate and financing expenses less $10,062 amortized	98,615	21,859
Other expense items and deposits	32,597	8,235
	$ 269,998	$ 44,332
Excess of Cost of Investment in Certain Subsidiaries over Book Value at Date of Acquisition	$ 1,440,113	$ 1,191,333
	$14,192,479	$11,116,542

Approved on behalf of the Board of Directors R. A. Kennedy
A. G. Brown

as at december 31, 1965

LIABILITIES	No. of shares	1965	Comparative 1964
Current			
Bank indebtedness — secured		$ 3,742,116	$ 3,705,569
Accounts payable and accrued charges		1,894,916	1,349,168
Income and other taxes		141,090	231,003
Dividend payable		16,770	16,862
Long-term debt payments due within one year		78,468	192,643
Total current liabilities		$ 5,873,360	$ 5,495,245
Deferred Profit Sharing Bonus — subsidiary			$ 35,502
Long Term Debt (Note 6)		$ 3,164,300	$ 976,500
Minority Interest			$ 264,822
SHAREHOLDERS' EQUITY			
Capital Stock (Note 7)			
5½% cumulative redeemable convertible first preference shares of $8 each (redeemable at $8.40)			
Authorized	152,450		
Issued and outstanding	152,450	$ 1,219,600	$ 1,225,896
Common shares without par value			
Authorized	650,700		
Issued and outstanding	292,913	1,975,199	1,952,984
Excess of Book Value of Equity in Predecessor Subsidiaries at Date of Acquisition Over Cost of Investment		785,661	779,728
Retained Earnings		1,174,359	385,865
		$ 5,154,819	$ 4,344,473
		$14,192,479	$11,116,542

See accompanying notes to financial statements.

notes to consolidated financial statements

1. Amalgamation

The company was formed by amalgamation of Montex Holdings Limited, The Monarch Knitting Company, Limited and M. K. L. Textiles Limited effective July 2, 1965. The accompanying consolidated statements of income, retained earnings and source and application of funds include operations of the predecessor companies.

2. Consolidation

The consolidated financial statements include all subsidiary companies except one inactive subsidiary stated as an investment costing $1,500 which has a book value of approximately $5,000. Accounts of one subsidiary acquired during the year are included for its fiscal period ended November 30, 1965. Operations of the former subsidiary Tricotex Company Ltd. are included for the period December 1, 1964 to date of disposal March 5, 1965. All subsidiaries are wholly owned.

3. Inventories

Certain inventories of finished goods are valued at the lower of total cost and total market at December 31, 1965 compared with the lower of cost and market item by item at December 31, 1964. The effect of this change is to increase income for 1965 by approximately $48,500.

4. Property, equipment and other assets for realization

This item includes residential properties sold subsequent to December 31, 1965, equipment in respect of which a sale and lease-back have been arranged and mortgages and life insurance to be disposed of.

5. Product development and introduction expenses

Expenses of $86,797 (including $14,238 deferred in 1964 and $72,559 in 1965) incurred in the product development and introduction of a new division will be written off over the subsequent three year period or less, so that no profit will be recorded for such division until all deferred expenses have been written off.

6. Long term debt

Parent		
6½% first mortgage sinking fund bonds series A due November 15, 1980 (sinking fund $200,000 annually November 15, 1967-79; redeemable at par for sinking fund and in whole or part at premium after November 15, 1970)		$3,000,000
Notes due $10,000 half yearly to 1971 bearing interest at 6% from June 1, 1967		120,000
3¾% to 4% serial debentures due $95,000 in 1966 and $75,000 in 1967	$170,000	
4¾% sinking fund debentures maturing in 1971	361,500	
	$531,500	
Less: Deposit held by trustee for redemption of debentures	531,500	
Subsidiaries		
6½% first mortgage bond on machinery and fixtures due March 1967		31,500
7% first mortgage bond on equipment due February 1970		75,000
Loan due January 31, 1967		1,000
8% conditional sale contract for machinery due August, 1966		15,268
		$3,242,768
Less: Amount due within one year included in current liabilities		78,468
		$3,164,300

7. Capital stock

Upon amalgamation the issued shares of Montex Holdings Limited were converted share for share into like shares of Montex Apparel Industries Limited and are treated as identical in the following summary of changes in capital stock during the year:

	Shares	Amount
5½% cumulative redeemable convertible first preference shares of $8 each		
Issued and outstanding, January 1, 1965	$153,237	$1,225,896
Issued in exchange for common shares of The Monarch Knitting Company, Limited at $8 per share	313	2,504
Converted into common shares	(1,100)	(8,800)
Issued and outstanding, December 31, 1965	152,450	$1,219,600

or the year ended december 31, 1965

Common shares without par value		
Issued and outstanding, January 1, 1965	290,584	$1,952,984
Preference shares converted	1,100	8,800
Employees' options exercised	1,200	13,200
Warrants exercised	25	175
Issued to shareholders of M. K. L. Holdings Limited upon amalgamation	4	40
Issued and outstanding, December 31, 1965	292,913	$1,975,199

There are 117,350 warrants outstanding each entitling the holder to purchase one common share at the price of $7 per share until January 15, 1969 and $9 thereafter until January 15, 1974. In addition 36,000 warrants were issued during the year with the 6½% first mortgage bonds and are outstanding each entitling the holder to purchase one common share at $20 until November 15, 1980.

Options to the vendors of shares of certain subsidiaries are outstanding for the purchase of 50,000 common shares at $11 per share during the period ending October 14, 1969. 25,000 common shares are reserved for issue to key executives and employees of the Company and its subsidiaries under the Company's share option plan. As at December 31, 1965 options were outstanding under the plan for 20,800 common shares at $11 per share exercisable during the period ending December 4, 1969 and for 2,000 common shares at $16 per share exercisable during the period ending November 12, 1970.

Each preference share is convertible into one common share at any time at the option of the holder.

During 1966 and each year thereafter with possible exceptions the company will be obligated to purchase for cancellation 3,750 preference shares to the extent available at prices not exceeding par value.

The trust deed securing the 6½% first mortgage sinking fund bonds contains certain restrictions on the payment of dividends after December 31, 1966 based on earnings and fixed charges for 1966 and subsequent years.

8. Depreciation

To adopt a uniform depreciation policy for the company and its subsidiaries, provision for depreciation of buildings, machinery and equipment of certain companies was changed in 1965 from the diminishing balance to the straight line basis. Depreciation on the diminishing balance basis for 1965 would have been approximately $60,000 more than the amount provided.

9. Income taxes

As a result of deducting depreciation and certain costs and expenses for income tax purposes in excess of amounts charged in the accounts, income taxes of approximately $164,000 for the year and $431,000 to date have been deferred and the provision made for income taxes does not include these amounts. In addition the provision for the year has been reduced by approximately $46,000 by applying a prior year's loss of a subsidiary.

10. Income

Included as income for the year are commissions of $274,665 that may be considered to be extraordinary, a credit of $95,245 arising from reduction of creditors' claims in respect of a subsidiary company and a credit of $29,839 from the company pension plan.

11. Lease and other commitments

During the year and subsequently the company and subsidiaries became lessees of premises for terms up to 25 years at annual rentals of approximately $292,000 and terminated the leases of or leased to sub-tenants properties having annual rentals of approximately $242,000.

During the year the company purchased certain land for $165,000 and paid a deposit of $10,000. This purchase was completed subsequent to December 31, 1965 and is currently held for resale.

12. Contingent liability

Note receivable discounted $183,000.

13. Directors fees, amortization of deferred charges

Fees to directors as such amounted to $2,050 for the year. Amortization of corporate and share issue expenses amounted to $5,379.

consolidated statement of income
for the year ended december 31, 1965

Income before deducting the following		$ 946,646
Interest and amortization — long term debt	$ 58,706	
Depreciation and amortization (Note 8)	238,484	297,190
Income before income taxes		$ 649,456
Income taxes (Note 9)		107,800
Net income before adding pre-acquisition losses of subsidiaries		$ 541,656
Pre-acquisition losses of subsidiaries		61,755
Consolidated net income for the year (Note 10)		$ 603,411

consolidated statement of retained earnings
for the year ended december 31, 1965

Balance at beginning of year		$ 385,865
Proceeds of disposal in excess of cost of investment in subsidiary	$304,025	
Less earnings since acquisition	40,452	263,573
Net income for the year (Note 10)		603,411
		$1,252,849
Premium on redemption of preference shares and dividends to minority shareholders of predecessor subsidiary		$ 11,321
Dividends on preference shares		67,169
		$ 78,490
Balance at end of year		$1,174,359

consolidated statement of source and application of funds
for the year ended december 31, 1965

Funds provided		
Net income	$603,411	
Add depreciation and other non-cash items (net)	217,160	
		$ 820,571
Sale of shares of subsidiary		1,003,552
Issue of bonds		3,000,000
Issue of capital stock		13,375
Other		29,654
		$4,867,152
Funds applied		
Additions to fixed assets less proceeds of disposal		$ 694,532
Reduction of long term debt		674,200
Redemption of preference shares of a subsidiary		226,915
Acquisition of subsidiaries		193,683
Bond issue and amalgamation expenses		88,111
Product development and introduction expenses		72,559
Deferred plant opening expenses		33,589
Dividends paid		67,169
Other		4,906
		$2,055,664
Increase in working capital		$2,811,488
Working capital at beginning of year and adjustments for subsidiaries acquired and subsidiary disposed of		1,038,218
Working capital at end of year		$3,849,706

auditors' report

To the Shareholders of
Montex Apparel Industries Limited:

We have examined the consolidated balance sheet of Montex Apparel Industries Limited and its subsidiary companies as at December 31, 1965 and the consolidated statements of income, retained earnings and source and application of funds for the year ended on that date including predecessor companies as stated in Note 1. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances in respect of those companies of which we are the auditors; we have relied on the reports of other auditors on their examination of the financial statements of certain subsidiaries.

Toronto, Canada, March 31, 1966.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income, retained earnings and source and application of funds present fairly the financial position of the companies as at December 31, 1965 and the results of their consolidated operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes in respect of inventories and depreciation as stated in Notes 3 and 8.

Winspear, Higgins, Stevenson and Doane,
Chartered Accountants.

	by MONTEX	
Pedigree	Dorsay	Carter's
Monarch-Knit	Jockey	Intimate
PASSPORT	MONTINO	
	'TOUGHIES'	UNIQUE

MONTEX APPAREL INDUSTRIES LIMITED

HEAD OFFICE: 88 Ronson Drive, Rexdale, Ontario

COMPANIES

Dorsay (Canada) Limited
9320 St. Lawrence Blvd.
Montreal, Quebec
— Manufacturing — St. Marc Des Carrières
— Drummondville, Quebec

Intimate Apparel Inc.
9320 St. Lawrence Blvd.
Montreal, Quebec
— Manufacturing — Charny, Quebec

Montino Fashions Inc.
9320 St. Lawrence Blvd.
Montreal, Quebec

Passport Apparel Inc.
9320 St. Lawrence Blvd.
Montreal, Quebec
— Manufacturing — Sherbrooke, Quebec

Pedigree Mfg. Co. Ltd.
9320 St. Lawrence Blvd.
Montreal, Quebec

The Monarch Knit Division
88 Ronson Drive
Rexdale, Ontario
— Showrooms — 12 Shuter Street, Toronto, Ontario
— 88 Ronson Drive, Rexdale, Ontario
— Manufacturing — Dunnville, Ontario
— St. Catharines, Ontario
— Welland, Ontario

Carter Division
88 Ronson Drive
Rexdale, Ontario
— Manufacturing — Dunnville, Ontario

Unique Crests and Athletic Supplies Limited.
160 Kendal Avenue
Toronto, Ontario
— Manufacturing — 160 Kendal Avenue, Toronto, Ontario

Expansion continues in 1966

In carrying out the plan to consolidate the operations of all Montreal-based companies, your Company has completed arrangements to lease three floors of a new 12-storey textile building at 9320 St. Lawrence Boulevard to be known as "The Montex Building". These floors, totalling 180,000 square feet, will combine manufacturing-warehousing, executive offices and showrooms for the following Montex companies: Dorsay, Intimate, Pedigree, Passport, Montino and a sales office of Monarch-Knit.

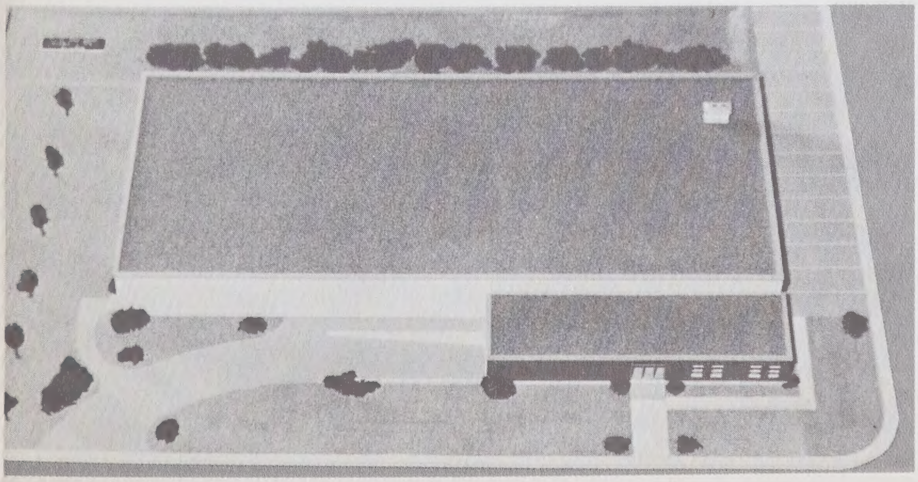
This move will greatly facilitate the Montex conception of further consolidation to improve efficiency and reduce costs.

In Toronto, Montex has recently moved its corporate offices to 88 Ronson Drive, Rexdale. Included in this building will be centralized warehousing facilities and accounting offices for the Ontario based companies of Montex. Finished goods production from the new Welland Plant, and the St. Catharines hosiery plant will be forwarded to this warehouse for the combined shipment of famous Monarch-Knit, Jockey and Toughies products and Viyella and Bancora hosiery.

companies and manufacturing plants

New Welland Plant

The Monarch-Knit division's new plant at Welland, Ontario, is an important addition to your company's operation. This 32,000 square foot plant began operations in October 1965, and is now producing 125,000 garments weekly on three conveyorized sewing lines. Increased sales demand will require more conveyors and a cutting room addition to the plant. These will be completed in 1966 and will bring production to 175,000 garments weekly.



Charny Plant *(photograph of architect's model)*

Designed to take advantage of modern machinery, and production "flow" systems, the new Charny, Quebec, plant is successfully producing 14,000 high fashion garments weekly. The plant is 17,000 square feet in area and employs one hundred and forty persons.